



GM1.4

Appendix A

October 16, 2014

Toronto City Hall
Real Estate Division

To whom it may concern:

Please take this letter as our earnest effort to come to a workable solution for the current situation of the lease for Café on the Square at Toronto City Hall.

We understand the City's position. It sent out an RFP and within the body of the RFP were CAM costs set out that allocated cost to the restaurant at approximately 700% of the then current CAM costs of \$2.52 per square foot. We acknowledge that we missed this during the RFP process. When the lease was reviewed by our lawyer, this issue became clearer and we tried to remedy the situation but were basically told to sign the lease or lose the restaurant. We had hoped that reasonable accommodation would be made so that the CAM reflected the actual costs and services provided for the restaurant and not those unassociated with the restaurant such as huge security costs and maintenance for a public building and square. We have throughout the current lease paid our rent and CAM charges based on the previous year. However, the burden of such CAM costs on the restaurant makes the premises uneconomical for our restaurant and ALL restaurants that would operate at this location.

We are writing this letter to try to come up with workable solutions that are best for both parties. The status quo does not work for either party. The City each month allocates CAM charges of \$17.78 per square foot which cannot be paid without heavy losses by the Tenant. The Tenant entity operates only this one location and has no other assets other than the restaurant and as such can only effectively pay from net revenues of the restaurant. For the restaurant to pay the CAM charges as requested, the restaurant would be insolvent and the keys would simply be handed back to the City as Landlord and the City's only realistic recourse would be the sale of the used restaurant equipment. We say this not as a threat but as a reality. The only way that the City can be made whole is through the profitable operation of the restaurant. We have suggestions as to how a profitable operation can be reached and we set out here in various ideas for your consideration:

1. Reduce the square footage of the restaurant and thereby reduce its associated costs including Rent and CAM costs;
2. Assess CAM costs based upon the restaurant's actual usage of the area within the building as a food services location and not as office space. Further only CAM associated with the restaurant should be charged;
3. Set a gross rent only for the restaurant at a total cost that is sustainable and that includes Basic Rent and CAM charges;
4. Allow more flexibility of products, branding, hours and pricing to allow the revenues to increase as a number of the city councillors have suggested;
5. Agree on the amount of debt outstanding based on related CAM and allow the restaurant to repay the debt by paying a further one (1%) percent of revenue on a monthly basis to reduce debt outstanding and allow the City to be repaid for the agreed to debt;
6. With this revised platform, the restaurant could obtain a loan to fund the leasehold improvements to the premises and thereby quickly wipe out the \$140,000.00 amount noted as a liability for Improvements not yet carried out.

We are further open to other reasonable suggestions that allows the restaurant to operate as a going concern. Any other solution that does not allow the restaurant to operate on at least the most modest of profits is self-defeating and will only cause losses to all parties concerned.

We very much look forward to working with you to come up with the best solution for both parties.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tony Palermo', written in a cursive style.

Tony Palermo
Director of Operations
Café on the Square

100 QUEEN STREET WEST
TORONTO, ONTARIO M5H 2N1

Oct 31 2014

Metro Hall Attn: Mr. Jack Harvey

Fax416-392-1880

We are in receipt of your letter of October 21, 2014 which responds to our letter of October 16, 2014. In our letter, we set out the reasons why we are in this unenviable situation and came up with possible solutions to negotiate a fair resolution on a go forward basis. In accordance with the Government Management Committee decision, we have tried and shall continue to try to come to a mutually agreeable solution through negotiation. Your deadline of October 31, 2014 notwithstanding that the Committee asked for a report for the first quarter of 2015 is puzzling and negotiations by letter as opposed to direct meetings can only progress so quickly.

As you know, our main concern are the CAM charges that do not relate to the business we conduct and are simply unaffordable for any like restaurant to operate within City Hall. With the loss of the catering business within City Hall, we are simply reduced to being a low margin breakfast, lunch and snack restaurant and no such restaurant can carry the weight of charges for security and cleaning etc. that do not relate to any benefit which the restaurant enjoys.

We would like to work this out and are earnestly trying to come to a negotiated solution but at each point are told that the RFP cannot be changed. That said, you have provided some movement in reducing our basement storage cost to \$8.16 per square foot. We appreciate the movement but it does beg the question, if the storage CAM is changeable (and likely changeable as the true CAM costs associated with basement storage is likely quite small) why can other CAM charges not be analysed in a like manner? We truly need your assistance to rectify the matter.

We have offered to reduce space, work with you on CAM charges, change branding to increase revenue (such as becoming a Tim Horton's), and provided formulas for paying down requested CAM charges stated to be in arrears all of which have been denied. We will now go back to the drawing board and try to suggest other possibilities that may satisfy both parties. Please remember, that we have operated for over fifteen years prior without default as CAM charges were manageable and fair. Do also remember that any sudden closure will lead to the loss of 22 long term jobs and the loss of food services to City Hall for months. And at the end of the day, it is likely that every potential tenant will tell you the same thing; that they cannot operate with such inflated CAM charges. We truly believe that with your reasonable assistance and negotiation we can make this situation right. Please work with us. We will come back to you with further solutions and we look forward to any solutions that you may have that would be mutually beneficial. In the interim, we respectfully request that no action be taken with respect to our tenancy until a solution is reached or the Government Management Committee has made a final determination.

Tony Palermo

1158093 Ontario Limited o/a Cafe on the Square